

MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended

30 JUNE 2021

Kreston KM & Co. LLP
Certified Public Accountants (K)
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**MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

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COMPANY INFORMATION

Board of Directors	Japhet Kasanga	Chairman
	Desmond Katana	Vice chairman
	Lazarus Muli	
	Simon K. Nderitu	
	Paul Maina	
	Joseph Wasira	
	John Mwangi	
	James Likembe	
Key Management Staff	Milkah Kulati	Chief Executive Officer
	Peter Enyenze	Operations manager
	Agnes Chepkoech	Finance Manager -May 2021 to June 2021
	Lilian Thuo	Ag. Finance manager-July 2020 to April 2021
	Joyce Nyambura	Human resource & administration manager
Company Secretary	Hezekia Oira	
	Bayshill Court, Off Riara Road	
	P.O BOX 51862 - 00202	
	Nairobi	
Registered Office and Principal Place of Business	Music Copyright Society of Kenya Ltd	
	P.O. Box 14806 - 00800	
	Slip Road, Waiyaki way, Westlands	
	Nairobi, Kenya	
Independent Auditors	Kreston KM & Company LLP	
	Certified Public Accountants (K)	
	Surveyors Court, Suite B6	
	Woodvale Grove, Westlands	
	P.O. Box 66837- 00800	
	Nairobi, Kenya	
Principal Bankers	Absa Bank Kenya PLC	
	African Banking Corporation	
	Family Bank of Kenya Limited	

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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2021, which disclose the state of affairs of the Company.

Principal activities

The company is a non-profit making organisation established to administer certain rights granted under the Copyrights Act on behalf of members. Its core mandate is the collection and distribution of royalties to members.

Results

The net deficit for the year of Kshs 7,119,375 (2020 surplus of Kshs 875,947) has been added to the retained earnings.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19, a pandemic negatively affecting worldwide manufacturing and trade and posing the threat of significant disruption to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. COVID-19 had a negative impact on the Society's financial statements during the year ended 30 June 2021, which continues to affect the performance of the Society. The Directors continue to address the negative impacts on a case by case basis.

Statement as disclosure to the Company's auditors

With respect to each director at the time this report was approved:

- a) There is, so far as the director is aware, no relevant audit information of which the auditors are unaware; and
- b) The person has taken all steps that ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Auditors

The company's auditors, Messrs Kreston KM & Company LLP, have expressed their willingness to continue in office in accordance with Section 719(2) of the Kenyan Companies Act, 2015.

By order of the Board of Directors



.....
Company Secretary

Date 23. 8. 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control relevant to the preparation of the financial
- (ii) Selecting and applying appropriate accounting policies; and
- (iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act.

In preparing these financial statements, the directors have assessed the Company's ability to continue as a going concern. Nothing has come to the attention of the board of directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on13.07.....2022 and signed on its behalf by:

Director.....Lazams Muli.....
(Name) Signature.....

Director.....SIMON K. NDERITU.....
(Name) Signature.....

Director.....JOSEPH SHISIA.....
(Name) Signature.....

MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED**4(a)****REPORT OF THE AUDITORS TO MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD
FOR THE YEAR ENDED 30 JUNE 2021****Opinion**

We have audited the accompanying financial statements of Music Copyright Society of Kenya Limited set out on pages 5 to 20 which comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, the statement of changes in funds, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 30 June 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 21 in the financial statements which indicates that the Company's current liabilities exceed the current assets by Kshs. 207,971,362 (2020: Kshs. 202,573,862). At the same time accumulated losses as at 30 June 2021 amount to Kshs. 202,239,439 (2020: Kshs 195,120,063). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our audit opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. Other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, and for such internal control as the management determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED

4(b)

**REPORT OF THE AUDITORS TO MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD
FOR THE YEAR ENDED 30 JUNE 2021**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal requirements

As required by the Kenyan Companies Act, we report to you, based on our audit, that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were
- (i) necessary for the purposes of our audit;
- in our opinion proper books of account have been kept by the company, so far as appears from our
- (ii) examination of those books; and
- (iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Dr. George Kimeu – P/No. 603.


For and behalf of

Kreston KM & Company LLP

Certified Public Accountants (K)

Nairobi

25th August 2022



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Statement of comprehensive income

	Note	2021 KShs	2020 KShs
Gross income	6	<u>126,398,658</u>	<u>174,576,314</u>
Direct costs	7	2,984,792	7,107,863
Board & members expenses	8	23,922,540	27,040,381
Staff costs	9	40,127,572	71,990,681
Administration costs	10	39,667,294	32,109,163
Finance costs	11	804,084	1,407,644
Total expenses		<u>107,506,282</u>	<u>139,655,732</u>
Deficit before distribution		18,892,376	34,920,582
Provision for local distribution		(17,689,155)	(17,864,474)
Provision for foreign distribution		(4,724,351)	(8,215,188)
(Deficit)/surplus after distribution		<u>(3,521,130)</u>	<u>8,840,920</u>
Less provision for taxes		(1,829,329)	(4,158,373)
Less transfer to socio-cultural fund		<u>(1,768,916)</u>	<u>(3,806,600)</u>
(Deficit)/surplus for the year		<u><u>(7,119,375)</u></u>	<u><u>875,947</u></u>

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Statement of financial position

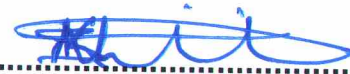
	Note	2021 KShs	2020 KShs
Non - current assets			
Property and equipment	13	4,873,068	5,632,049
Intangible assets	14	3,851,580	4,814,475
		<u>8,724,649</u>	<u>10,446,524</u>
Current assets			
Trade and other receivables	15	30,204,590	2,606,828
Deposits and prepayments	16	1,938,684	2,849,023
Cash and bank balances	17	11,228,228	10,504,983
		<u>43,371,502</u>	<u>15,960,834</u>
Total assets		<u>52,096,151</u>	<u>26,407,358</u>
Equity and liabilities			
General reserves		2,992,725	2,992,725
Accumulated losses		(202,239,438)	(195,120,063)
		<u>(199,246,713)</u>	<u>(192,127,338)</u>
Current liabilities			
Trade and other payables	18	190,338,854	177,049,170
Royalties payable	19	61,004,010	41,485,526
		<u>251,342,864</u>	<u>218,534,696</u>
Total equity and liabilities		<u>52,096,151</u>	<u>26,407,358</u>

The financial statements on pages 5 to 20 were approved for issue by the board of directors on
18.07.2022 and were signed on their behalf by:

Director.....Lazarus Muli
 (Name)

Signature.....

Director.....SIMON K. NDERITU
 (Name)

Signature.....

Director.....JOSEPH SHISIA
 (Name)

Signature.....

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Statement of changes in funds

	SOCIAL FUND Kshs	GENERAL RESERVE Kshs	ACCUMULATED LOSSES Kshs	TOTAL Kshs
2020				
Balance as at 1 July 2019	-	2,992,725	(195,996,010)	(193,003,285)
Additions	3,806,600	-	-	3,806,600
Surplus for the year	-	-	875,947	875,947
Payments in the year	(3,806,600)	-	-	(3,806,600)
Balance as at 30 June 2020	-	2,992,725	(195,120,063)	(192,127,338)
2021				
Balance as at 1 July 2020	-	2,992,725	(195,120,063)	(192,127,338)
Additions	1,768,916	-	-	1,768,916
Deficit for the year	-	-	(7,119,375)	(7,119,375)
Payments in the year	(1,768,916)	-	-	(1,768,916)
Balance as at 30 June 2021	-	2,992,725	(202,239,438)	(199,246,713)

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Statement of cash flows	Note	2021 Kshs	2020 Kshs
Changes in operating activities			
(Deficit)/surplus after distribution and before tax		(3,521,130)	4,682,547
Adjustments for:			
Finance costs		804,084	1,407,644
Amortization of intangible assets	14	962,895	1,203,619
Depreciation	13	1,162,981	1,424,740
Operating surplus before working capital changes		<u>(591,171)</u>	<u>8,718,550</u>
Working Capital Changes			
Accounts receivable		(27,597,762)	42,317,116
Deposits and prepayments		910,339	(920,227)
Accounts payable		13,289,684	26,638,887
		<u>(13,397,739)</u>	<u>68,035,776</u>
Cash generated from operations		(13,988,910)	76,754,326
Royalties payable		17,689,155	(61,402,361)
Cash generated from operations		<u>3,700,245</u>	<u>15,351,965</u>
Cash from investing activities			
Socio cultural payments		(1,768,916)	(3,806,600)
Purchase of fixed assets		(404,000)	(433,992)
Purchase of intangible assets	14	-	(2,189,960)
		<u>(2,172,916)</u>	<u>(6,430,552)</u>
Cash from financing activities			
Finance charges paid		(804,084)	(1,407,644)
Total cash from financing activities		<u>(804,084)</u>	<u>(1,407,644)</u>
Net cash inflows		<u>723,245</u>	<u>7,513,769</u>
Cash and cash equivalents as at 30 June 2020		<u>10,504,983</u>	<u>2,991,214</u>
Cash and cash equivalents as at 30 June 2021	17	<u><u>11,228,228</u></u>	<u><u>10,504,983</u></u>

NOTES

1. General information

Music Copyright Society of Kenya Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private company limited by guarantee, and is domiciled in Kenya. The address of its registered office and principal place of business is Slip Road, Waiyaki Way, Westlands P.O. Box 14806-00800, Nairobi. The principal activity of the company is the collection and distribution of royalties to members.

2. Basis of preparation and summary of significant accounting policies

These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Kenya Shillings (Kshs). The measurement basis used is the historical cost basis except where otherwise stated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(a) Revenue recognition

Revenue from sales of goods is recognised when the goods are delivered and title has passed. Revenue is measured at the fair value of the consideration receivable net of discounts and sale related taxes collected on behalf of the government of Kenya.

(b) Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

(c) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in the income statement.

NOTES (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES

a. Assets Held for Sale and Investment Property

Property held on operating leases are depreciated as the lessor has a right to eventually assume ownership of the assets.

b. Appropriation of Surpluses

Subject to withholding tax on Royalties at applicable rates, surplus is distributed to members as royalties based on scientific logs of music played by broadcasters. Additionally some amount is transferred to Socio cultural account based on a predetermined copyright methodology.

c. Income

Income earned is brought into the accounting period on the following basis:-

- (i) Incomes constitute license fees and royalties and are recognised when there is contractual evidence that they have been earned or received, which evidence include invoices, direct bank deposits and cash collected.
- (ii) Gains on disposal of fixed assets include income received and accrued during the accounting period.
- (iii) Other incomes include incomes from members entrance fees and other miscellaneous incomes from interest earned on bank deposits.

d. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

Held to Maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Were the Company to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds.

Available for sale

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Company or held to maturity. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

NOTES (Continued)

Financial liabilities are classified either as trading financial liabilities or other financial liabilities.

Recognition and measurement

The Company recognizes assets on the date it commits to purchase the asset. From this date, any gains or losses arising from changes in fair value of the assets are recognized directly in the equity and for financial assets at fair value through profit and loss.

Derecognition

A financial asset is derecognized when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments are derecognized on the day they are transferred by the Company.

Identification and measurement of impairment of financial assets

At each balance sheet date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by the company together for all financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a debt by the company on terms that the company would otherwise consider, indications that a debtor will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of debtors in the market, or economic conditions that correlate with defaults in the market.

NOTES (Continued)

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the expected recoverable amount based on the value of securities. Losses are recognized in profit or loss and reflected in an allowance account against the debts.

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

e. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f. Taxation

The company surpluses are not subjected to income tax but withholding tax is levied on royalties paid to members and returns to the tax authorities made appropriately.

g. Impairment Losses

Provisions are recognized when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

h. Impairment for non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

i. Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

j. Related party transactions

The company discloses the nature and amounts outstanding at the end of the financial year from transactions with related parties, which include transactions with directors, employees and related companies.

NOTES (Continued)

k. Finance charges

Finance charges represent bank and other charges.

l. Comparatives

Where necessary comparative figures have been restated, redescribed and or reclassified to conform to changes in presentation in the current year.

m. Employee Benefits

Company employees contribute to the National Social Security Fund (NSSF) an amount of Ksh 200 per month, an amount similarly contributed by the company for each employee. Additionally, it runs a contributory pensions scheme where an employee contributes 7.5% of their basic salary while the company contributes 12.5% of the employee's basic salary.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions

Income taxes

The company is subject to taxes in Kenya. Significant judgment is required in determining the company's provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

b. Critical judgments in applying the entity's accounting policies

In the process of applying the company's accounting policies, directors have made judgments in determining:-

- (i) Classification of financial assets;
- (ii) Leases;
- (iii) Impairment of assets;
- (iv) Non-current assets held to Maturity;
- (v) Non-current assets held for disposal

5 FINANCIAL RISK MANAGEMENT

The Directors have overall responsibility for the establishment and oversight of the company's risk management framework.

The company's risk management policies are established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

NOTES (Continued)

a. Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's transactions with customers, other institutions and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

Management of credit risk

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The directors have established a credit policy or standard under which each new customer is analyzed individually for creditworthiness before the company's business transactions are entered into and delivery terms and conditions are offered, initiated, executed or effected. The company's review includes external ratings, image profiling and public knowledge and in some cases references, where available. Credit limits are established for each customer, which includes a maximum open ceiling.

b. Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Typically the company ensures that it has sufficient cash on demand to meet expected normal operational expenses. This excludes the servicing of financial obligations which are separately planned for. Also excluded are the potential impacts of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The responsibility for managing daily liquidity assessment resides with the directors. However, the balance sheet liquidity management is a companywide task.

c. Currency risk

The company operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Company is not exposed to foreign currency risk.

d Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the company's operations.

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NOTES (Continued)

6. INCOME

Turnover represents proceeds from license fees received by the company during the year.

	2021	2020
	Kshs	Kshs
6(a) DISTRIBUTABLE INCOME		
General licensing income	90,458,211	150,877,971
Mechanicals rights	18,800,013	11,397,325
Broadcasting income	14,812,120	8,233,063
	124,070,344	170,508,359
6(b) NON-DISTRIBUTABLE INCOME		
These included incomes from the following sources during the year : -		
Membrane entrance fees/ registration income	2,087,120	2,370,177
Income from surcharge	-	774,654
Other Income	241,194	923,124
	2,328,314	4,067,955
Total income	126,398,658	174,576,314
7 DIRECT COSTS-COLLECTION COSTS		
Marketing and licensing expenses mapping	1,092,232	2,748,507
Security on collection	1,134,560	962,526
Agents commissions	-	561,830
Advocacy	758,000	2,835,000
	2,984,792	7,107,863
8 BOARD & MEMBERS EXPENSES		
Other board expenses	4,403,603	4,999,550
AGM and seminar costs	5,862,948	6,575,995
Finance, human resource and administrative	1,895,340	2,451,425
Honorarium, gratuity and arrears	10,492,857	11,721,431
Membership approval	1,267,792	1,291,980
	23,922,540	27,040,381
9 STAFF COSTS		
Salaries and wages	31,171,024	60,685,541
Pension employers contributions	1,866,081	4,501,989
Pension employers (NSSF contributions)	71,800	163,800
Performance bonus & commissions	6,893,787	-
Medical insurance premiums	124,880	6,639,351
	40,127,572	71,990,681

The average number of the employees during the year was 36 (2020:70).

NOTES (Continued)

	2021	2020
	Kshs	Kshs
10 ADMINISTRATIVE COSTS		
Rent and rates	6,102,531	5,918,581
Repairs and maintenance	55,878	130,539
Depreciation	1,162,981	1,424,740
Disturbance and terminal benefits	172,216	406,540
Telephone, postage and internet	1,788,190	2,331,750
Printing and stationery	346,018	907,247
Office expenses	585,760	974,270
Transport, travel and accommodation	2,340,069	4,720,786
Audit fees - external	875,961	796,328
'- internal	-	290,000
KECOBO forensic audit	2,153,448	-
Legal fees	14,352,239	4,523,288
Newspapers and periodicals	300	30,520
Licenses & permits	964,284	2,179,389
Subscriptions	391,235	27,906
Motor vehicles expenses	111,979	1,171,840
Publications and advertisements	55,794	170,151
Water and electricity	304,071	89,798
Security expenses	4,000	4,000
Training	265,900	1,313,779
Cleaning expenses	84,275	83,063
IT related expenses	4,243,803	1,680,397
Amortization costs	962,895	1,203,619
Unexplained debits in closed bank accounts written off	-	1,254,664
Consultancy	-	85,868
MCSK foundation/benevolent expenses	252,076	390,100
Provision for doubtful debts	2,091,392	-
	39,667,294	32,109,163
11 FINANCE COSTS		
Bank charges/finance costs	804,084	1,407,644

12 TAXATION

The company's operating surpluses/losses are not subjected to income tax. Instead withholding tax is retained from any distribution to members and returns filed appropriately.

NOTES (Continued)

13 PROPERTY AND EQUIPMENT

	Furniture and fittings Kshs 12.5%	Office Equipments Kshs 12.5%	Computer and printers Kshs 30%	Motor Vehicles Kshs 25%	TOTAL Kshs
<u>COST</u>					
Balance as at 1 July 2020	7,700,130	1,818,267	11,658,342	2,528,395	23,705,134
Additions	224,000	45,000	135,000	-	404,000
Cost as at 30 June 2021	<u>7,924,130</u>	<u>1,863,267</u>	<u>11,793,342</u>	<u>2,528,395</u>	<u>24,109,134</u>
<u>Accumulated Depreciation</u>					
As at 1 July 2020	5,041,684	1,215,233	9,887,773	1,928,395	18,073,085
Charge for the year	360,306	81,004	571,671	150,000	1,162,981
As at 30 June 2021	<u>5,401,990</u>	<u>1,296,237</u>	<u>10,459,444</u>	<u>2,078,395</u>	<u>19,236,066</u>
Net Book Value as at 30 June 2021	<u>2,522,140</u>	<u>567,030</u>	<u>1,333,898</u>	<u>450,000</u>	<u>4,873,068</u>
Net Book Value as at 30 June 2020	<u>2,658,446</u>	<u>603,034</u>	<u>1,770,569</u>	<u>600,000</u>	<u>5,632,049</u>
YEAR END JUNE 2019					
<u>Cost</u>					
Balance as at 1 July 2019	7,697,085	1,818,267	11,227,395	2,528,395	23,271,142
Additions during the year	3,045	-	430,947	-	433,992
Cost as at 30 June 2020	<u>7,700,130</u>	<u>1,818,267</u>	<u>11,658,342</u>	<u>2,528,395</u>	<u>23,705,134</u>
<u>Accumulated Depreciation</u>					
As at 1 July 2019	4,661,906	1,129,086	9,128,958	1,728,395	16,648,345
Charge for the year	379,778	86,147	758,815	200,000	1,424,740
As at 30 June 2020	<u>5,041,684</u>	<u>1,215,233</u>	<u>9,887,773</u>	<u>1,928,395</u>	<u>18,073,085</u>
Net Book Value as at 30 June 2020	<u>2,658,446</u>	<u>603,034</u>	<u>1,770,569</u>	<u>600,000</u>	<u>5,632,049</u>

NOTES (Continued)

	2021 Kshs	2020 Kshs
14 INTANGIBLE ASSETS		
Cost	11,735,128	9,545,168
Additions	-	2,189,960
	<u>11,735,128</u>	<u>11,735,128</u>
Less: Amortization		
Balance as at 01.07	6,920,653	5,717,034
Charge for the year	962,895	1,203,619
	<u>7,883,548</u>	<u>6,920,653</u>
Net Book Value 30.06	<u>3,851,580</u>	<u>4,814,475</u>
15 TRADE AND OTHER RECEIVABLES		
Trade and other debtors	70,481,643	70,481,643
KPM receivables	31,703,608	2,014,454
Staff debtors	289,604	289,604
	<u>102,474,855</u>	<u>72,785,701</u>
Impairment loss provision	(72,270,265)	(70,178,873)
Total trade receivables	<u>30,204,590</u>	<u>2,606,828</u>
16 DEPOSITS AND PREPAYMENTS		
Deposits - dropping zone	25,299	25,299
Rent deposit	1,872,710	1,872,710
Security deposit	35,175	35,175
Electricity deposit	5,500	5,500
Prepaid license	-	910,339
	<u>1,938,684</u>	<u>2,849,023</u>

NOTES (Continued)

	2021 Kshs	2020 Kshs
17 CASH AND BANK BALANCES		
Cash in hand	-	2,366
Absa Bank Ltd	3,044,709	1,670,542
ABC Bank Ltd	1,449,646	720,601
Family Bank	(30,389)	237,011
Mpesa Paybill	5,364	168,798
Mpesa paybill 504641	2,077	64,328
NCBA Joint Account	735,284	738,944
ABC Bank-Fixed Deposit Account	6,021,537	6,902,393
	11,228,228	10,504,983
18 TRADE AND OTHER PAYABLES		
Trade payables	127,832,111	123,058,264
Provisions	43,698,564	39,537,407
KAMP payable	-	534,604
Foreign royalties	15,373,088	10,648,737
Other payable	2,559,130	2,473,830
Audit fees	875,961	796,328
	190,338,854	177,049,170
19 ROYALTIES PAYABLE		
Royalties brought forward	17,826,601	83,387,335
Add: Royalties provided for the year	19,458,071	21,671,074
	37,284,672	105,058,409
Less: Royalties paid to members during the year	-	(83,425,208)
Less: Socio-cultural payments	(1,768,916)	(3,806,600)
	35,515,756	17,826,601
Tax on royalties brought forward	23,658,925	19,500,552
Tax on royalties for current year	1,829,329	4,158,373
	25,488,254	23,658,925
Total Royalties and tax payable	61,004,010	41,485,526

NOTES (Continued)

20 CONTINGENT LIABILITIES

The total disclosed potential claims in the lawyers' confirmations amount to Kshs. 104,313,331 (Kshs. 24,870,000 by Rombo & Company Advocates) and (Kshs. 79,863,331 by Okubasu Munene & Kazungu Advocates LLP).

The Directors are of the opinion that appeals were made in respect of the cases and the final ruling is yet to come up hence the final liability figures are yet to be determined.

No provision has been made in these accounts in respect of any liabilities that may arise out of those cases as the directors are of the view that these liabilities will not crystallise in the foreseeable future.

21 GOING CONCERN

The Company's current liabilities exceed its current assets by Kshs. 207,971,362 (2020 Kshs. 202,573,862). As at 30 June 2021 accumulated losses amount to Kshs. 202,239,439 (2020 - Kshs. 195,120,063). The Regulator through a letter dated 11th August 2021 withdrew the Company's operating licence and the Company has gone to court to have this decision reversed. All these matters make the going concern of the Company doubtful. Hence, the going concern of the business is highly dependent on continued support by the members, creditors and financiers and the reinstatement of the Company's operating license by the Regulator after final determination of the pending court case.

The Board has evaluated the going concern of the business and has put in place plans to return the Company back to profitability through various strategies, which include:

Implementation in full in 2022 all the strategies put in place for 2021 but failed to be implemented due to the continued COVID-19 pandemic in 2021.

Operationalization of the already acquired High Court of Kenya Orders compelling the Inspector of Police to reinstate police assistance in enforcement of the provisions of the Copyright Laws will greatly aid in improved collections and hence enhanced compliance by the music users in all public places. This will not just stabilize and or reduce the real costs of collections but also raise revenues from all the streams – general businesses and the transport sector.

Taking steps together with the sister societies to keep the operational costs low through the conversion of the field staff to commission-based agents, thus reducing the fixed costs element.

Compliance by the Broadcasters that had been suspended due to the pandemic in 2021, which will generate more incomes in 2022. This is due to the firmed-up cooperation between the MCSK together with sister societies and the Communications Authority of Kenya (CA) where compliance with the payments for copyright has been made a requirement for BR stations before renewing of their annual licenses with the CA.

Continued engagement with the unpaid suppliers and other creditors for negotiated settlements, and the cases in court to be settled out of court.

A robust and professional PR and Marketing committee has been instituted within its own secretariat and under the Operations, Advocacy and Marketing department to aggressively enhance marketing and other public awareness campaigns in the year 2022. This shall also be done through close collaboration with all the relevant government agencies; KECOBO, Ministry of ICT and the Police.

The near to fruition push for the inclusion of our rights holders in the share of the collections from the Blank Tape levy soon to be implemented by KRA which will greatly expand our income upwards and hence much better performance regarding collections.

Effective from 2022 we have discussed and adopted a strategy to seek to diversify into other revenue streams that include enhancing mechanical rights royalties from the many registered Premium Rate Service Providers and the telecommunication companies, both local and international. This is forecasted to push the collections higher.

The submission of a reviewed tariff to the Regulator for gazettelement that is favorable and will push collections upwards.

The Board has carefully considered all the above realities and prepared the financial statements on a going concern basis due to their belief in the current Company's turnaround strategy and the support obtained from the key stakeholders.

- 22** The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by guarantee and is domiciled in Kenya.

23 CURRENCY

The financial statements are expressed in Kenya Shillings (Kshs).